

# Alternative Investment Management (AIM) Program Review

February 14, 2011

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Overview of the AIM Program

Summary of Performance

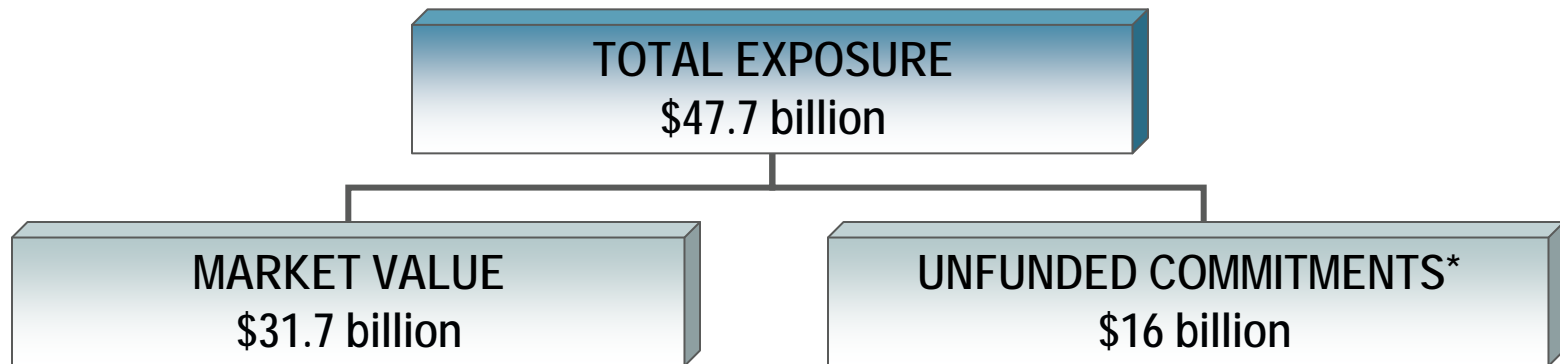
2010 Roadmap Priorities and Accomplishments

Market Conditions

2011 Roadmap Priorities and Investment Strategies

# Asset Allocation

Current allocation by market value is 14.1% or \$31.7 billion

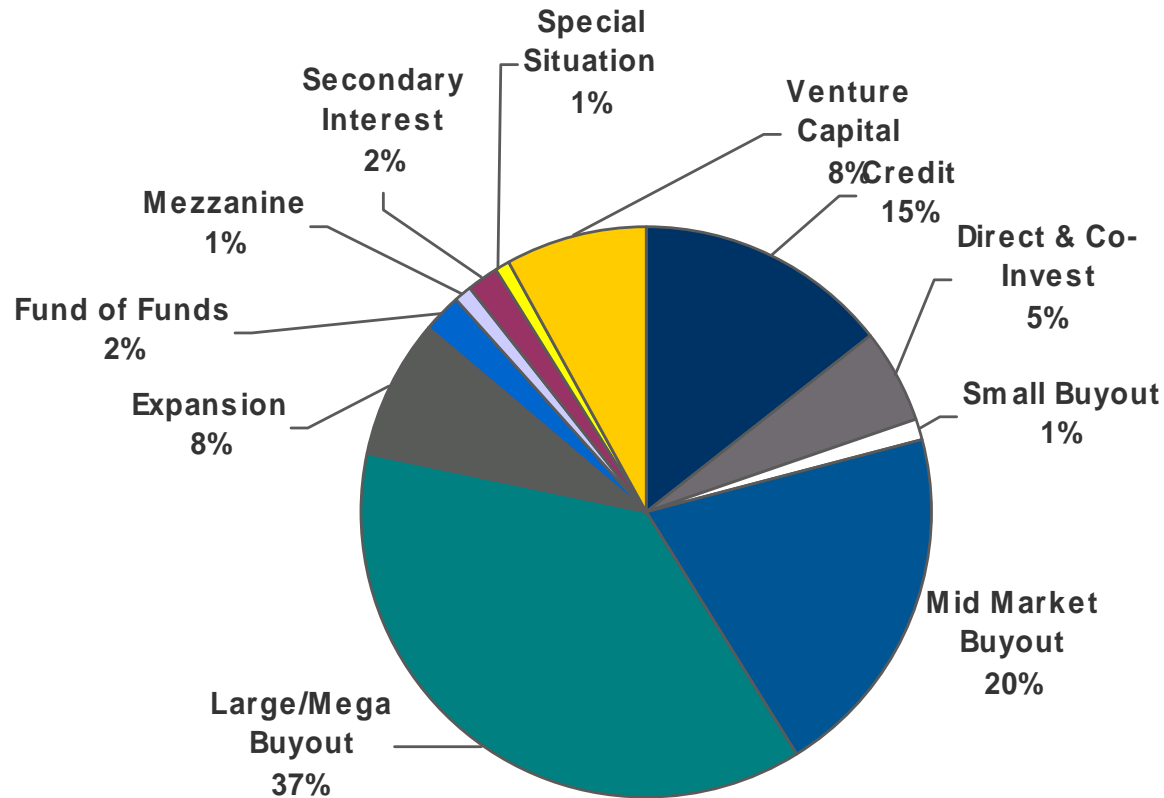


AIM Allocation Parameters	
Target:	14%
Actual:	14.1%

*\*Unfunded commitment stays fully invested in other CalPERS asset classes until the capital is drawn down and invested by our private equity partners. The unfunded commitments are legally binding agreements.*

As of December 31, 2010

# Total Exposure\* by Sub-Asset Class

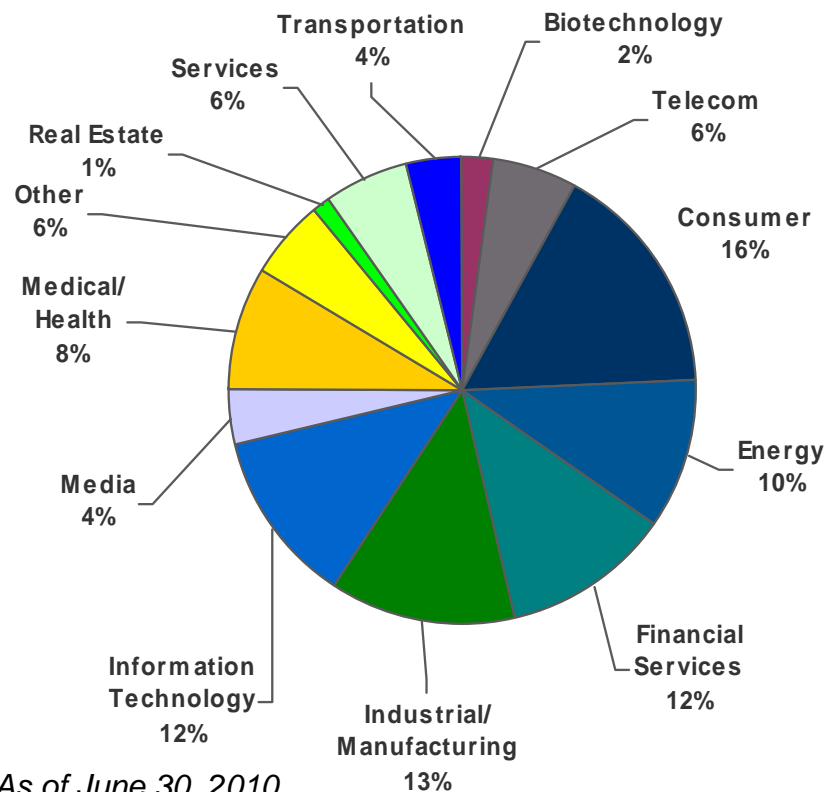


Note:

\* Defined as unfunded commitments plus fair market value as of June 30, 2010

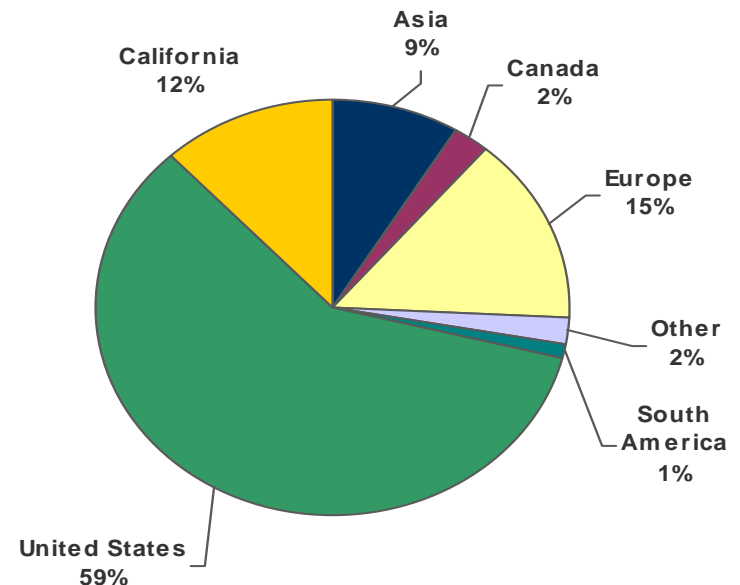
# Total Market Value by Industry and Geography

**Current Market Value by Industry**

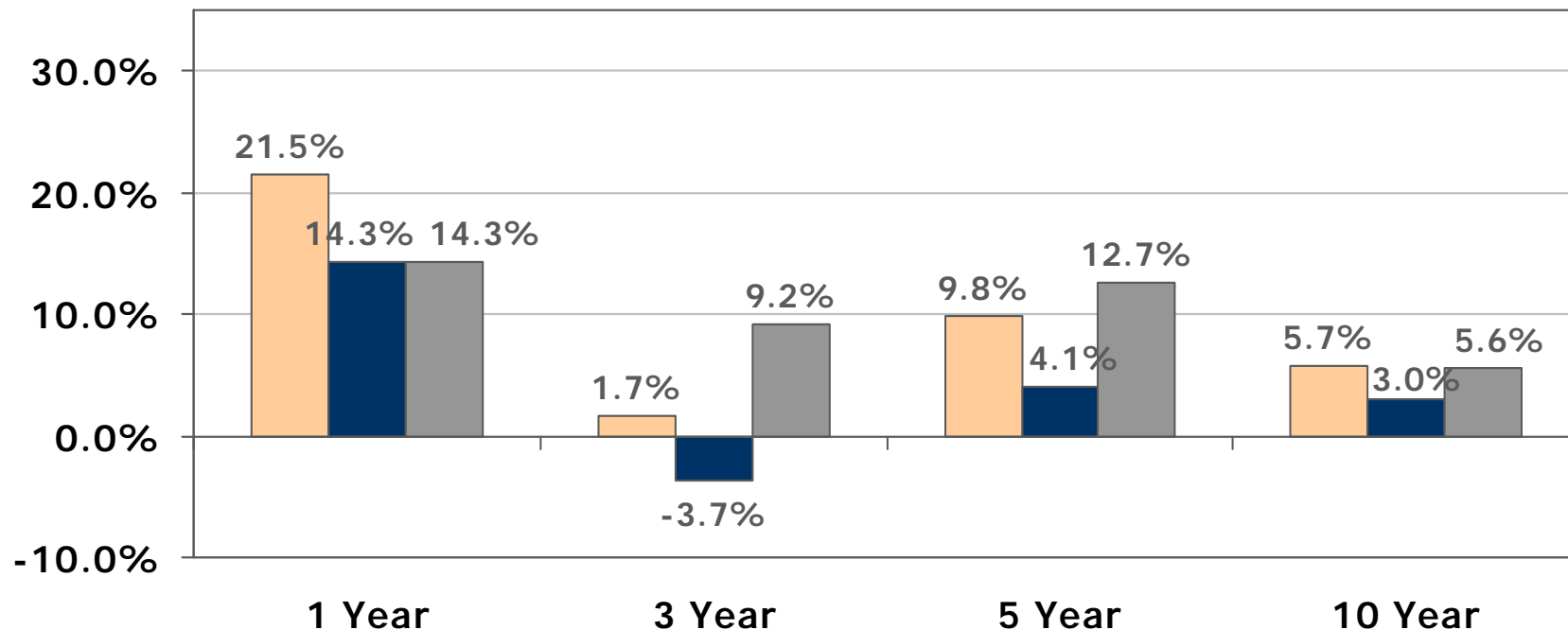


As of June 30, 2010

**Current Market Value by Geography**



# Consistent Outperformance of Public Markets



■ Total AIM Program Time Weighted Returns

■ Wilshire 2500 Ex. Tobacco plus 300 bps, lagged 1-qtr

■ Wilshire 2500 Ex. Tobacco plus 300 bps, lagged 1-qtr/Custom Young Fund Universe (policy benchmark)

Annualized returns as of December 31, 2010

Data Source for AIM Performance Information is State Street Bank/Analytics - CFA Institute Compliant

Data Source for AIM Benchmark is Wilshire Associates

AIM Policy Benchmark is under review

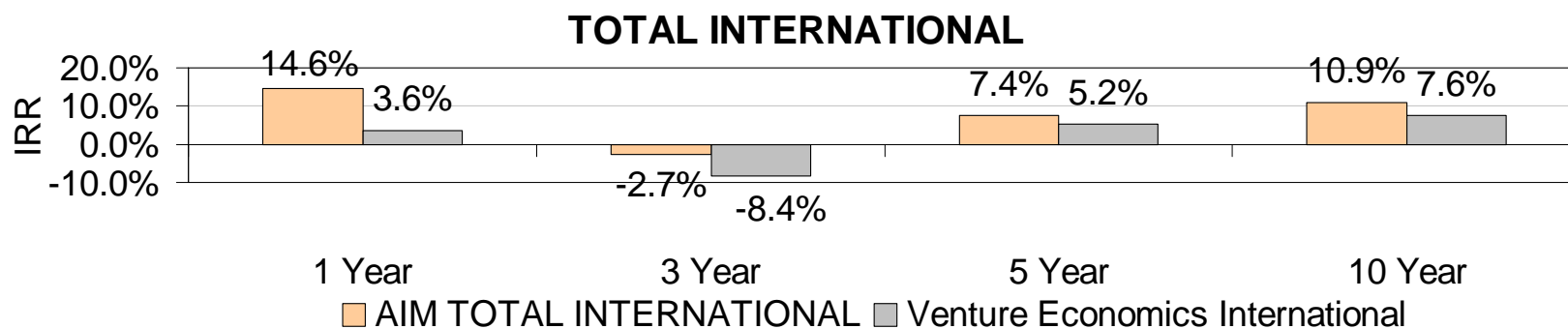
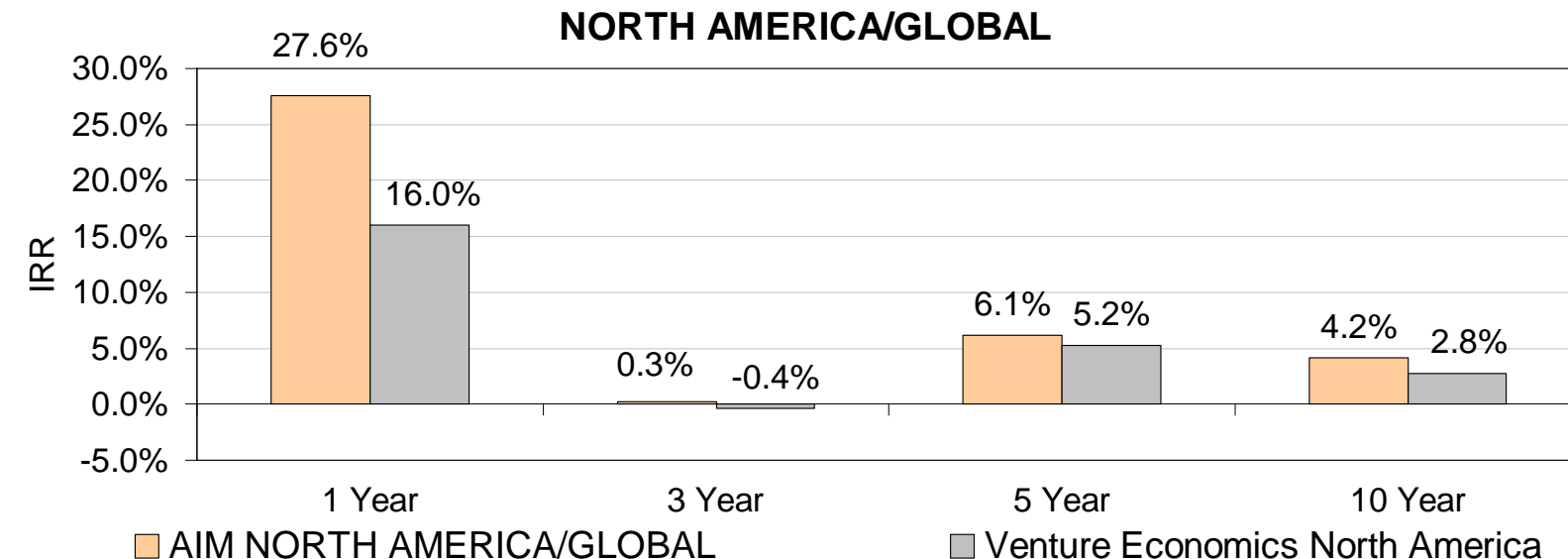
# Net IRR by Strategy

<u>Strategy Focus</u>	<u>% of Total NAV</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>	<u>Since Inception</u>
<b>Total Buyout</b>	<b>54.6%</b>	<b>21.3%</b>	<b>-0.5%</b>	<b>8.4%</b>	<b>8.5%</b>	<b>13.0%</b>
<i>Small Buyout</i>	<i>0.8%</i>	<i>15.5%</i>	<i>4.0%</i>	<i>11.9%</i>	<i>8.4%</i>	<i>8.5%</i>
<i>Middle Market Buyout</i>	<i>18.6%</i>	<i>17.0%</i>	<i>0.4%</i>	<i>10.1%</i>	<i>9.0%</i>	<i>11.8%</i>
<i>Large/Mega Buyout</i>	<i>35.3%</i>	<i>23.7%</i>	<i>-1.0%</i>	<i>7.5%</i>	<i>8.2%</i>	<i>14.1%</i>
<b>Credit Related</b>	<b>19.8%</b>	<b>42.2%</b>	<b>5.6%</b>	<b>7.4%</b>	<b>9.4%</b>	<b>11.1%</b>
<b>Expansion Capital</b>	<b>8.6%</b>	<b>22.0%</b>	<b>0.9%</b>	<b>7.7%</b>	<b>4.5%</b>	<b>3.8%</b>
<b>Mezzanine Debt</b>	<b>1.2%</b>	<b>15.1%</b>	<b>1.3%</b>	<b>5.6%</b>	<b>1.2%</b>	<b>2.5%</b>
<b>Other*</b>	<b>6.5%</b>	<b>24.3%</b>	<b>-10.1%</b>	<b>-6.0%</b>	<b>-4.2%</b>	<b>4.3%</b>
<b>Secondary Interest</b>	<b>1.6%</b>	<b>13.7%</b>	<b>2.3%</b>	<b>8.2%</b>	<b>7.5%</b>	<b>15.3%</b>
<b>Total Venture Capital</b>	<b>7.7%</b>	<b>13.5%</b>	<b>3.0%</b>	<b>7.1%</b>	<b>-2.8%</b>	<b>3.0%</b>
<b>TOTAL AIM</b>		<b>24.4%</b>	<b>0.2%</b>	<b>6.8%</b>	<b>5.0%</b>	<b>9.1%</b>

Internal Rate of Return is as of June 30, 2010

\*Includes Fund of Funds, Special Situation, and Other Investments

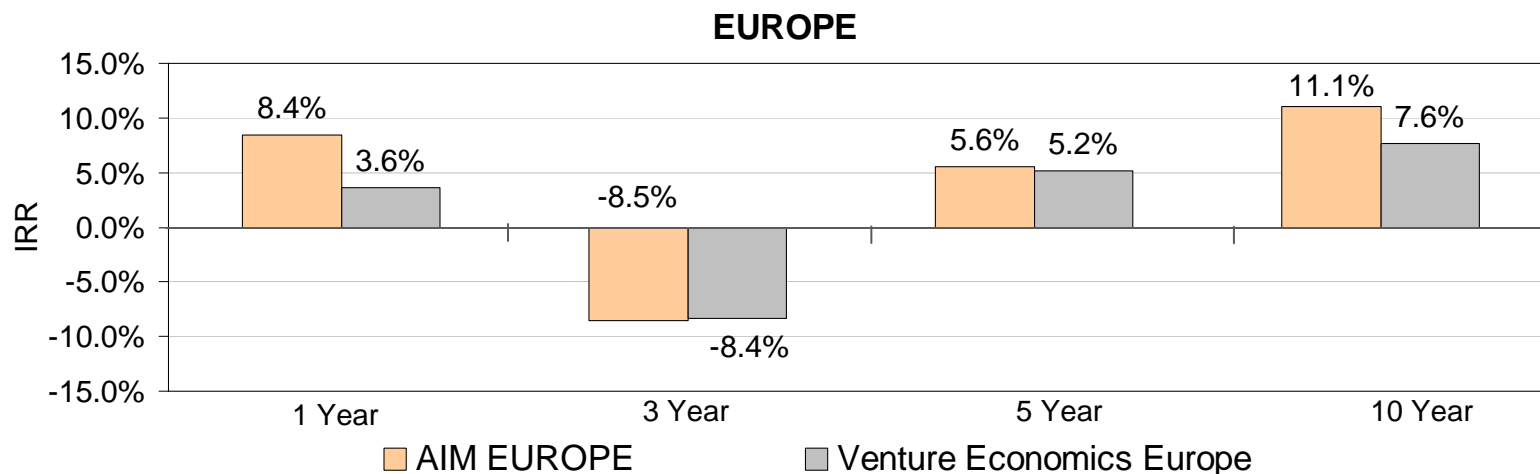
# Int'l Investments Accretive to Long Term Performance



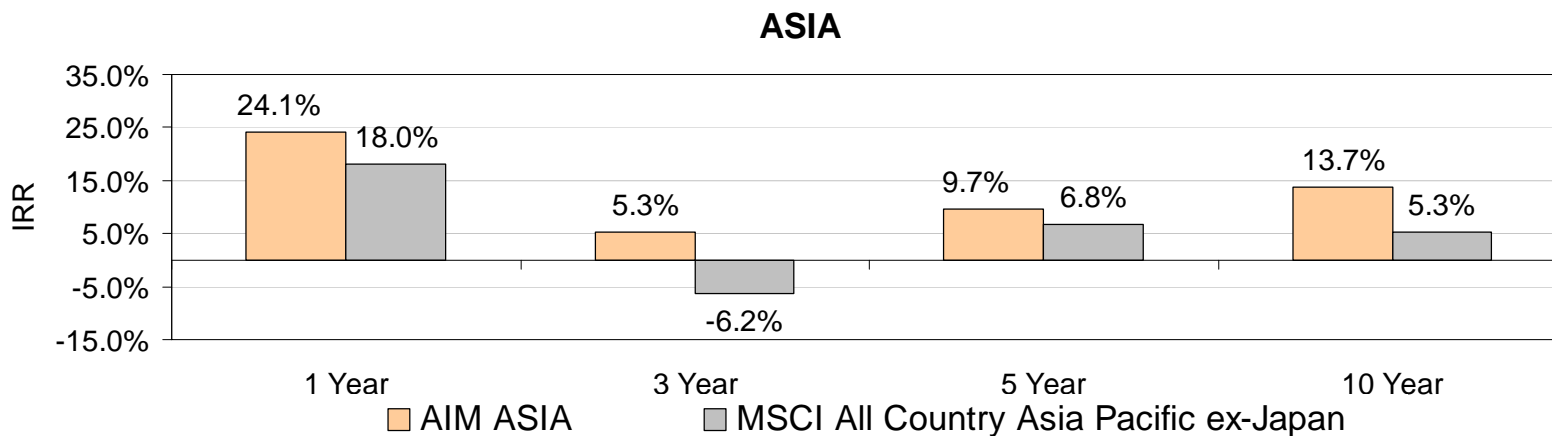
As of June 30, 2010



## Europe has generated solid performance long term



## Asia showing strong results in near and long term



As of June 30, 2010

# 2010 Roadmap Priorities & Accomplishments

## Focus on Enhanced Performance

- CY 2010 Performance: 21.5% time weighted return vs. policy benchmark of 14.3%
- '07-08 decision to invest in distressed credit opportunities has paid off
- Improved alignment of interests, governance and transparency (ILPA PE Principles 2.0)

## Emphasize Contrarian/Opportunistic Investments

- Distressed community banking sector analysis and investment
- Control-oriented restructuring strategies well positioned to back businesses in soft economy
- Supported operationally focused and distressed debt emerging managers

## Build Co-Investment Strategy

- Added staff to provide capability to execute
- Developing more efficient sourcing and screening process

# 2010 Roadmap Priorities & Accomplishments

## Evaluate and Streamline Portfolio

- Restructured several existing relationships
- Reduced existing commitments by over \$1 billion
- Initiated AIM Manager Review
- Portfolio rebalancing activities in process

## Improved Portfolio Analytics

- Developed portfolio company analytics dashboard
- Worked with Risk and Asset Allocation to improve pacing model assumptions
- Collaborated with other asset classes to identify market risks and opportunities

## Operating Enhancements

- Led Investment Proposal Tracking System (IPTS) design and implementation across INVO
- Contributed to multiple Rapid Result initiatives including:
  - Capital Market Assumptions
  - Development of Risk Framework
  - Cost Effectiveness Initiative (\$39 million saved within AIM)

# Current Private Equity Market Conditions

Macro environment has improved

- Corporate profits are growing
- Increase in PE and VC-backed IPO activity
- Substantial increase in M&A activity
- Significant distributions received by AIM in Q4
- Return of dividend recaps; “full pricing” for good companies

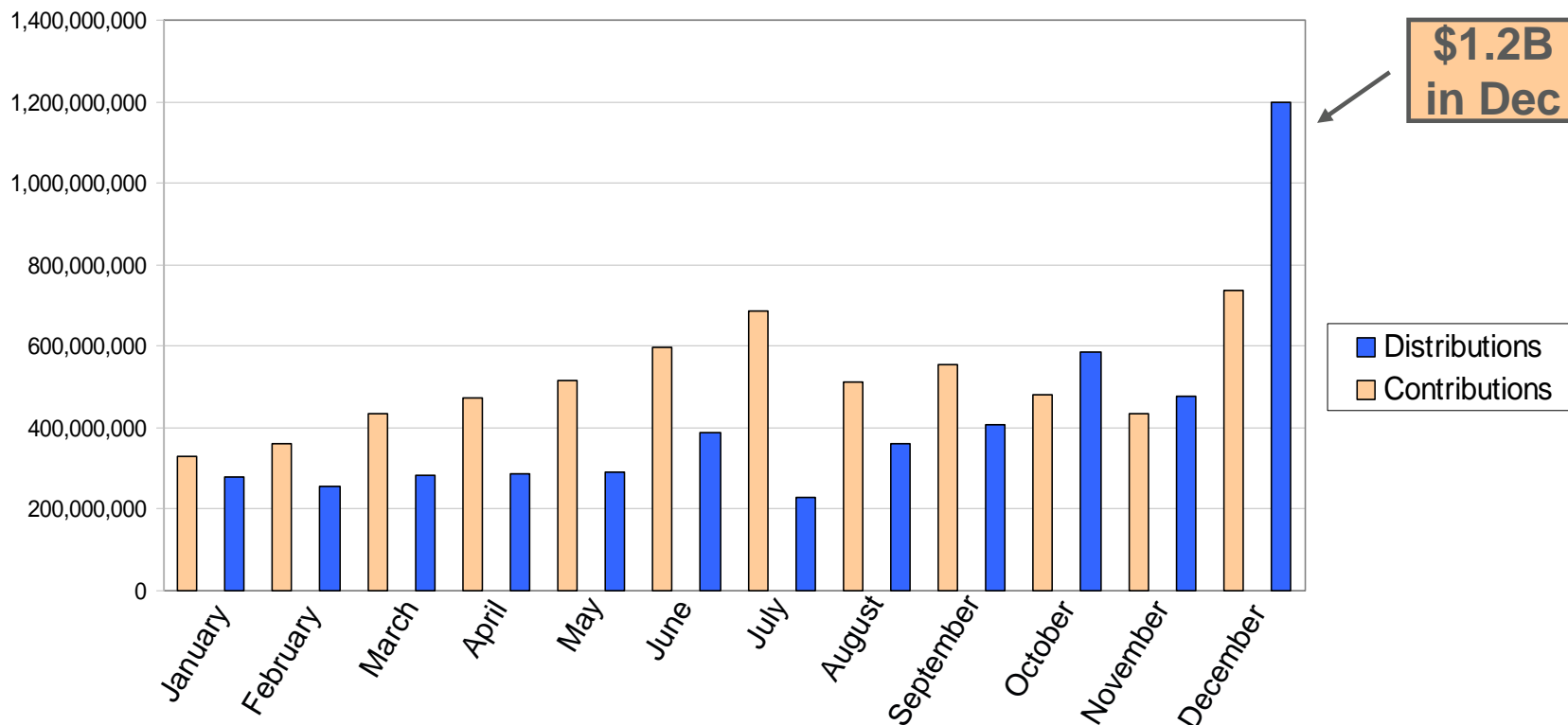
Rebound of U.S. capital markets has created LBO financing flexibility and options

Emerging markets continue to attract capital

Challenges remain in developed markets due to high overall sovereign and corporate debt levels

No consensus regarding sustainability of economic growth

# AIM 2010 Cash Flows: Improving Liquidity Trend



	Cash Flows Grand Total	
	2009	2010
Contributions	(4,345,197,395)	(6,115,290,196)
Distributions	2,254,290,850	5,046,758,624

# 2011 Roadmap Priorities

## Continue to Streamline Portfolio

- Conclusion of AIM Manager Review project
- Execute Portfolio Rebalancing activities
- Focus on reducing number of Managers

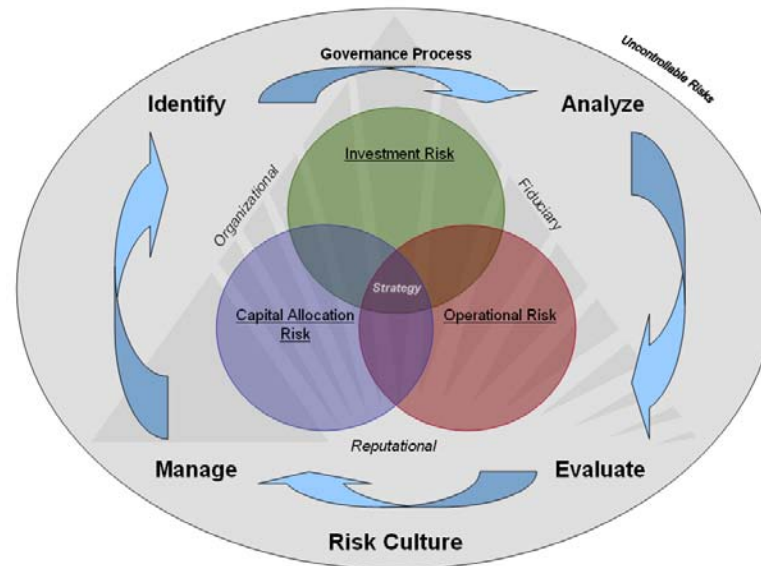
## Continued Focus on Enhancing Performance

- Continued refinements to manager selection and monitoring process
- Focus on improved terms, alignment of interest and transparency
- Further Integrate IESG framework into diligence and monitoring process
- Source and evaluate “spin out” opportunities (emerging managers)
- Integration of data, knowledge, and new tools into investment sourcing and execution

# 2011 Roadmap Priorities

## Concentrate on Improved Risk Management Function

- Enhancements in Portfolio Construction and Monitoring
  - Portfolio Analytics
  - Performance Attribution
  - Portfolio company data collection, validation, and measurement
- Overlay INVO Risk Framework on AIM Program



# 2011 Investment Strategy and Themes

1. Refine strategies by geography and industries, supplemented by INVO-wide inputs
2. Measured pace of new commitments, working closely with Asset Allocation and the Investment Strategy Group
3. Bolster direct investment capabilities
4. Middle market corporate restructuring strategies
5. Explore private debt/specialty finance opportunities
6. Collaborate with Opportunistic/Cross Asset Class teams
7. Focus on growth markets, particularly in China and Brazil



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